

Message Text

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ORIGIN EB-08

INFO OCT-01 EUR-12 ISO-00 CEA-01 TRSE-00 SS-15 AID-05
CIAE-00 COME-00 EA-07 FRB-03 INR-07 IO-13 NEA-10
NSAE-00 USIA-06 OPIC-03 SP-02 LAB-04 SIL-01
AGRE-00 OMB-01 /099 R

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EUR/RPE: R GELBARD
S/S:MR. SEBASTIAN

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TO ALL OECD CAPITALS PRIORITY
USMISSION EC BRUSSELS

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E.O. 11652: N/A

TAGS: EFIN, EGEN, US

SUBJECT: U.S. ECONOMIC STRATEGY: DID IT CHANGE LAST
WEEK?

1. SUMMARY: ON APRIL 14, PRESIDENT CARTER ANNOUNCED HIS
DECISION TO DROP THE 50 DOLLARS PER PERSON INCOME TAX RE-
BATE AND THE SUPPLEMENTARY BUSINESS TAX CREDITS FROM THE
ADMINISTRATION'S ECONOMIC STIMULUS PROGRAM. SEVERAL OECD
EMBASSIES IN WASHINGTON HAVE ASKED THE DEPARTMENT WHETHER
THESE CHANGES IN THE ADMINISTRATION'S PROGRAM MEAN THAT IT
HAS ABANDONED THE STRATEGY OF ASSISTING WORLD ECONOMIC RE-
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COVERY BY PROMOTING THE MAXIMUM RATE OF DOMESTIC ECONOMIC
GROWTH CONSISTENT WITH SUSTAINED REDUCTION OF INFLATION.
THE ANSWER IS NO. THE ADMINISTRATION'S STRATEGY REMAINS
UNALTERED. AFTER THE STRONG PERFORMANCE OF THE U.S. ECON-
OMY IN THE FIRST QUARTER, HOWEVER, OUR JUDGMENT IS THAT THE
GROWTH OBJECTIVES OF THAT STRATEGY CAN BE ACHIEVED WITHOUT
THE REBATE. END SUMMARY.

2. PRESIDENT CARTER MADE THE FOLLOWING ANNOUNCEMENT APRIL 14: "THE RECENT IMPROVEMENTS IN ALL THE ECONOMIC INDICATORS, THE RECENT REDUCTION IN UNEMPLOYMENT, THE RECENT INCREASE IN THE INFLATIONARY INDICATORS AND THE PROSPECTIVE IMPACT OF THE NEW ENERGY PROPOSALS, ALL HAVE CONVINCED ME, THE LEADERS OF CONGRESS, AND OUR ECONOMIC ADVISERS THAT WE DO NOT NEED TO PROCEED IN THE CONGRESS WITH THE 50 DOLLAR TAX REBATE, NOR WITH THE OPTIONAL BUSINESS TAX CREDITS."

3. AS EXPLAINED BY PRESIDENT CARTER AND HIS PRINCIPAL ECONOMIC ADVISERS DURING THE SUBSEQUENT PRESS BRIEFING, THIS DECISION WAS BASED ON NEW INFORMATION ON THE U.S. ECONOMY WHICH INDICATES STRONGER RECOVERY THAN EARLIER EXPECTED. IT DOES NOT, HOWEVER, CONSTITUTE A CHANGE IN THE U.S. STRATEGY. THIS POINT WAS MADE BY THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISORS, "BASICALLY WE STARTED OUT WITH AN ATTEMPT TO DO THE FOLLOWING: TO GET SOMETHING LIKE FIVE AND THREE-QUARTERS TO SIX PERCENT GROWTH BETWEEN THE END OF LAST YEAR AND THE END OF THIS YEAR. IN ORDER TO DO THAT, WHEN WE ORIGINALLY MADE OUR FORECAST AND ORIGINALLY MADE OUR ECONOMIC STIMULUS PROPOSALS WE THOUGHT WE NEEDED SOME IMMEDIATE, VERY EARLY IN THE YEAR, STIMULUS TO CONSUMER SPENDING; AND THAT THE NATURAL GROWTH IN THE ECONOMY AND THE OTHER ELEMENTS OF THE PACKAGE WOULD PICK UP AS WE GOT PAST MID-YEAR. THE MAJOR DIFFERENCE HAS BEEN THAT WE CAN GET TO THE SAME RESULT WITHOUT HAVING THE REBATE, BECAUSE THE AMERICAN CONSUMER ON HIS AND HER OWN HAVE DONE IT. SO THAT IMMEDIATE STIMULUS, EARLY IN THE LIMITED OFFICIAL USE

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YEAR, WASN'T NEEDED TO GET TO THE BASIC FORECAST WE ARE MAKING." (PRELIMINARY FIGURE FOR FIRST QUARTER U.S. GNP GROWTH WAS 5.2 PERCENT ON ANNUAL BASIS. THIS WAS UNEXPECTEDLY HIGH AND DOUBLE THE RATE OF FOURTH QUARTER LAST YEAR -- DESPITE THE IMPACT OF SEVERE WINTER WEATHER IN JANUARY AND FEBRUARY.)

4. LATER IN THE PRESS CONFERENCE, TREASURY SECRETARY BLUMENTHAL WAS ASKED WHAT WE WOULD TELL FOREIGN GOVERNMENTS, SPECIFICALLY THE JAPANESE AND GERMAN GOVERNMENTS, ABOUT THE CHANGE IN THE U.S. STIMULUS PROGRAM. HE REPLIED, QUOTE I THINK THAT IT WILL BE CLEAR TO THEM THAT WE HAVE REDUCED OUR STIMULUS FOR THIS TWO-YEAR PERIOD FROM SOMEWHAT IN EXCESS OF 30 BILLION DOLLARS TO SOMEWHAT IN EXCESS OF 20 BILLION DOLLARS AND THAT WE HAVE DONE SO BECAUSE WE FOUND THAT THE FIRST PART OF IT, WHICH WE THOUGHT WAS NEEDED TO STIMULATE CONSUMER DEMAND THIS SPRING, WAS NOT NEEDED BECAUSE CONSUMER DEMAND WAS STEPPING UP ANYWAY. AND I THINK THAT RECOGNITION WILL BE CLEAR TO THEM AS IT

HAS BEEN TO US. END QUOTE.

5. ACTION REQUESTED: POSTS MAY AS APPROPRIATE DRAW ON THE ABOVE IN DISCUSSIONS WITH HOST GOVERNMENT OFFICIALS. YOU SHOULD MAKE CLEAR THAT THE ADMINISTRATION CONTINUES TO SUPPORT MAXIMUM GROWTH IN THE U.S ECONOMY CONSISTENT WITH SUSTAINED REDUCTION IN INFLATION. THE DECISION TO ABANDON THE INDIVIDUAL TAX REBATES AND BUSINESS TAX CREDITS WAS POSSIBLE BECAUSE THE U.S. ECONOMY IS NOW EXPECTED TO REACH ITS GROWTH TARGET WITHOUT THESE MEASURES. WE CONTINUE TO BELIEVE THAT STRONG ECONOMIC GROWTH IN THOSE COUNTRIES WHICH ARE IN A RELATIVELY STRONG FINANCIAL POSITION WILL CONTRIBUTE TO RECOVERY IN OTHER COUNTRIES AND TO A MORE SUSTAINABLE GLOBAL BALANCE OF PAYMENTS PATTERN.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, POLICIES, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 21-Apr-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE090618
Document Source: CORE
Document Unique ID: 00
Drafter: T A FORBORD
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770139-1031
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770432/aaaabazr.tel
Line Count: 131
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 1e3c30a1-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
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Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2732479
Secure: OPEN
Status: NATIVE
Subject: U.S. ECONOMIC STRATEGY: DID IT CHANGE LAST WEEK?
TAGS: EFIN, EGEN, US
To: OECD POSTS EC BRUSSELS
Type: TE
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